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# MONEY PROBLEMS OF EARLY TAR HEELS

BY  
**MATTIE ERMA PARKER**



*From Map of Virginia, North Carolina, and other Colonies, by Fry and Jefferson, 1751*

**A Colonial Wharf**

FOURTH EDITION

**RALEIGH  
STATE DEPARTMENT OF ARCHIVES AND HISTORY  
1957**

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## MONEY PROBLEMS OF EARLY TAR HEELS

High prices, high taxes, high rents—these are familiar topics today. They were also familiar to the people living in North Carolina at the time of the Revolution—and for many years before the Revolution. Perhaps in those days these topics represented even more difficult problems for the individual than they do now. For in colonial times paying taxes, rents, or other debts often meant hauling barrels of tar several miles through a swamp, or weighing out and delivering a quantity of feathers, cheese, butter, corn, or the like. Not only did the early North Carolina colonist have the difficulty of transporting his “money,” but in addition he faced the problem of reaching an agreement with his creditor as to how much and what would be accepted in payment of the debt. Even if he paid coin, which he rarely could do, there was still a question as to how much was owed, for the value of coins varied from place to place and from time to time.

In theory English coins were real money in North Carolina, as well as in other British colonies. Actually, however, there were so few coins in the province that business could not have been carried on if only hard money had been used for exchange. North Carolina was usually in debt to the mother country, and goods sent to England were credited on these debts and did not bring money into the colony in return.

Trade with Spain, France, Portugal, and their possessions did bring in gold and silver from those countries, and these and a few other foreign coins made up the metallic money of colonial North Carolina. The most important of these coins in the early days was the Spanish “piece of eight” (eight reals). After 1728 Spain issued the Spanish milled dollar in place of the “piece of eight,” and this then became the best known coin in North Carolina. The Spanish half dollar, quarter dollar, and three smaller coins circulated as change, while the chief gold coins in the colony were the Portuguese johannes or joe (valued at sixteen Spanish dollars), the moidore (six Spanish dollars), and the Spanish and French pistole (worth a little less than four Spanish dollars).

Although there were practically no English coins in the colony, nevertheless prices of goods were set in English pounds and shillings. Foreign coins, therefore, had to be valued in English money. A Spanish dollar contained only as much silver as four



*Photograph courtesy of Waite Raymond, Inc., New York*

A Spanish milled dollar of 1770. The Spanish dollar was the chief coin circulating in North Carolina and the other American colonies. The American dollar was named for it.

and one-half English shillings; but in the colonies it was accepted as the equivalent of six or eight shillings, and sometimes more. In the year 1704 a British royal proclamation was issued stating that in England's American colonies the Spanish dollar should be accepted as the equivalent of six English shillings, while other foreign coins were to be valued on the same scale in proportion to their weight. But the colonists paid little attention to the proclamation, and the value of foreign coin continued to vary.

Although Queen Anne's proclamation failed to establish a value for foreign coins in the colonies, it did provide a name for those coins, for they came to be known as "proclamation money." While at first the term was used to refer to the rate at which foreign coins exchanged for English money, in time it came to be applied to the coins themselves. In North Carolina a Spanish dollar was usually worth eight shillings in English money, and was referred to as "eight shillings proclamation."

Since coins were so scarce, few people had hard money with which to pay their debts. Therefore, in return for the articles or services they obtained, the colonists gave whatever commodities they produced. Even rents and taxes were paid in rice, corn, wheat, feathers, butter, cheese, furs, tar, pitch, tobacco, and other produce. These commodities were used as money throughout the colonial period, and were considered the real money of the province. The direct exchange of goods, known as barter, was so general in North Carolina that laws were passed setting a value for the commodities most frequently exchanged. Since these laws rated the commodities in terms of

"proclamation money," and since they were used in place of coin, the commodities also came to be known as "proclamation money."

Although laws established certain exchange values for barter commodities, the market value of these articles varied according to supply, demand, and other circumstances. In 1731, for example, the market value of deer-skins was about the same as their legal value, while pitch and tar had fallen to one-fourth the legal valuation. As early as 1709 the Reverend William Gordon wrote that people kept the best articles and paid out the ones which were not actually worth their legal rating, for it was more profitable to use the latter as money than to sell them on the market. Governor Gabriel Johnston complained that the inhabitants insisted on paying their quit rents "in the worst and most bulky kind of their Produce, such as Butter, Cheese, Feathers, Tallow, Tarr, Pitch, Indian Corn," and that the expense of collecting these would amount to more than the value of the articles received.

Under such circumstances it was not only difficult to carry on business but it was also a problem to obtain sufficient revenue to conduct the government. In 1711, when the bloody war with the Tuscarora Indians began, there were neither coin nor commodities in the treasury. To meet the emergency, the provincial assembly issued paper money, and so began a series of efforts to solve the money problem by issuing notes. This method might have been successful had it been properly handled. But many mistakes were made, and criminal abuses arose, so that the paper money added more difficulties to the business conditions.

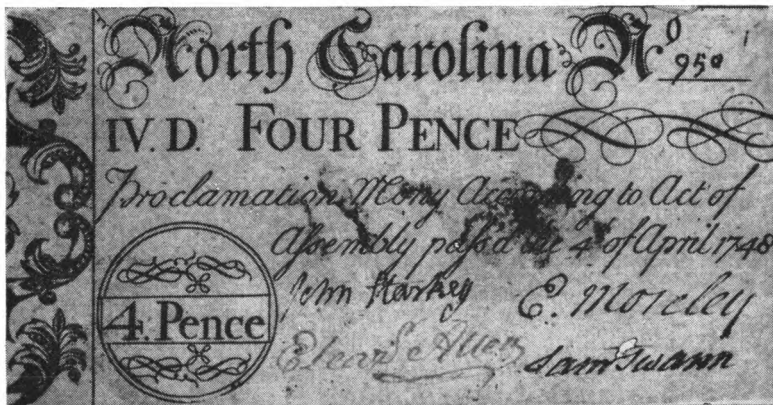
The first bills, issued in 1712, were used in paying debts arising from the Tuscarora war. In fact, they were really postponements of the debts, for the bills were simply promises of the colony to pay a specified amount of proclamation money after enough taxes had been collected to do so. At the same time a tax was levied which would enable the colony to pay the notes with interest. The bills, according to law, were to be accepted as money on an equal basis with barter commodities.

But the Indians remained troublesome, and more bills were issued. When the time came to pay the first notes, they were simply exchanged for new ones. Moreover, the assembly reduced the tax which had been levied to pay off the bills when they fell due. The failure of the colony to live up to its promises caused distrust of the paper money. People began asking higher prices



when paid in currency than they demanded in barter or silver, and soon prices in paper money were five times as high as prices in silver. But those who had silver kept it and spent currency, for there was danger that the value of paper money would fall still lower, while silver would always be good. Since the few gold and silver coins that had been in circulation were now hoarded, business was carried on almost entirely with paper currency and with the less valuable barter commodities. The result was an almost constant rise in prices.

Most people interpreted the rise of prices (which was in reality caused by lack of confidence in the paper money) as an indication that more money was needed. So the assembly continued to issue bills, still making inadequate provision for securing them.



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"New proc" bill. This bill, issued in 1748, was exchanged for the old bills, or "old proc." It was declared by law to have the value of four pence proclamation money.

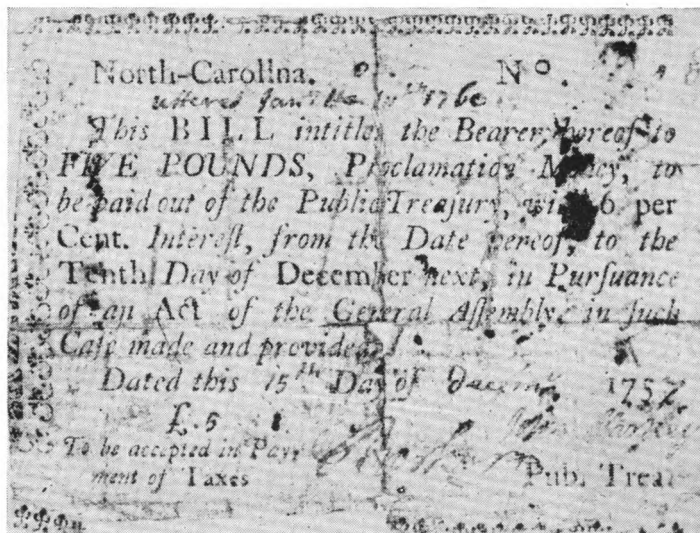
The increase in paper money helped many people, especially those who were in debt; for the more money there was and the higher prices were, the easier it was for debtors to pay what they owed. Creditors had a hard time, however, for the money they received would not buy as much as that which they had loaned or contracted for. One minister mournfully wrote in 1749, "Creditors in Time of War are paid in commodities that cannot be sold, and in time of peace in paper Bills of no real value." With several kinds of money in use, and with the value of each varying from day to day, to put it mildly, business conditions were bad.

Each piece of paper currency was really the colony's promissory note, which was eventually to be paid from taxes or other sources of income. By 1748 this debt had become so great that there was little likelihood that so poor a colony as North Carolina could ever pay it. At that time the bills would buy only a tenth as much as the law said they should.

The notes were legally payable in English or foreign coin at the proclamation rate of exchange, so paper currency, like foreign coin and barter commodities, was called "proclamation money" by the colonists. Actually, however, the notes were payable in barter commodities, which likewise were valued at proclamation rates and which in the public mind were the "money" of the province.

In 1748 the assembly undertook to improve the condition of the currency. The old currency, known as "old proc," was replaced by a new issue, which became known as "new proc." The new notes, which were declared to have the value of foreign coins, were exchanged for the old at the rate of seven and one-half shillings "old proc" for one shilling "new proc."

About this time an effort was made to do away with the old barter money. New laws declared the barter commodities no longer acceptable in payment of debts. But the commodities might be placed in certain warehouses where "inspectors' notes"

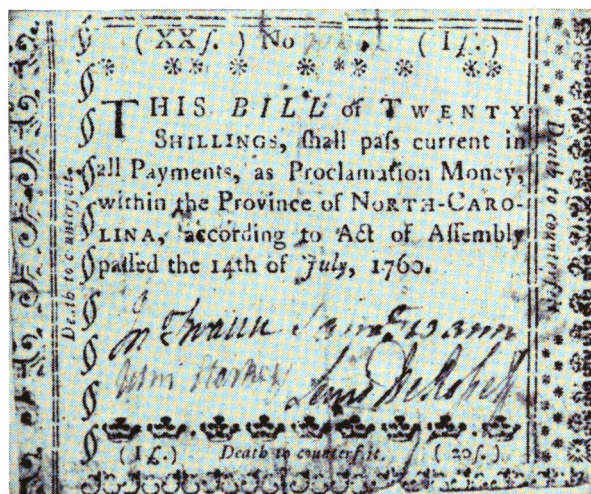


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Treasury note, issued in 1757 to help pay expense of French and Indian War.

were given in exchange. These notes, which were used in paying taxes and private debts, became important in the eastern districts; but in the western counties, which were too far from the warehouses to profit from the system, the old barter money continued to be used.

Throughout the colonial period counterfeiters were industrious, and the circulation of spurious notes added to the confused state of the currency. Although severe penalties for counterfeiting were provided by law, the practice continued. So clever were the counterfeiters that it was sometimes impossible for even the authorities to recognize counterfeit notes.

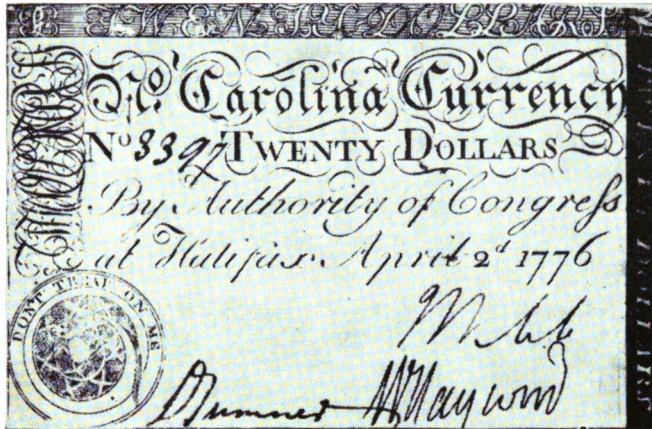


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Bill issued in 1760 to help pay cost of French and Indian War. Notice the warning to counterfeiters.

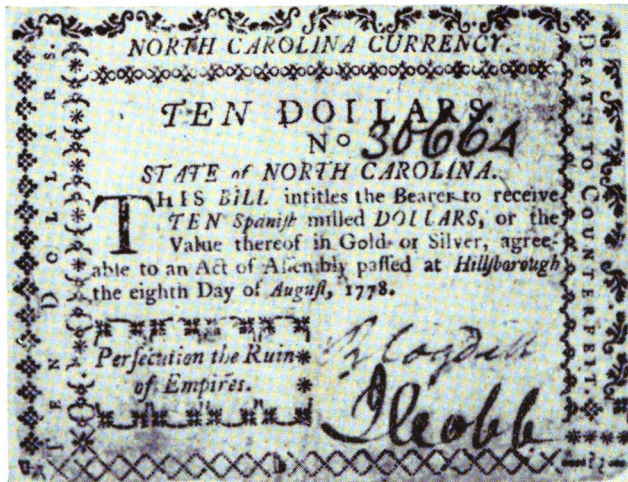
Most of the difficulty with the currency, however, seems to have been due to the fact that the colony lacked a sound, well enforced system of taxation. Except for a few light import duties and an occasional tax on land, poll taxes were the only source of revenue. These were poorly collected, and sheriffs were often negligent or dishonest in turning over to the treasury the money they did collect. Instead of levying other taxes, or requiring sheriffs to collect those levied, the government tolerated negligence and dishonesty; then, when notes fell due and there was no funds for paying them, new bills were exchanged for the old ones. There was no telling how far the province would go in failing to redeem its pledges, and people were reluctant to accept its notes.





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Bill issued in 1776 to help pay cost of the Revolution. Note that the Spanish dollar is the unit instead of the English pound.



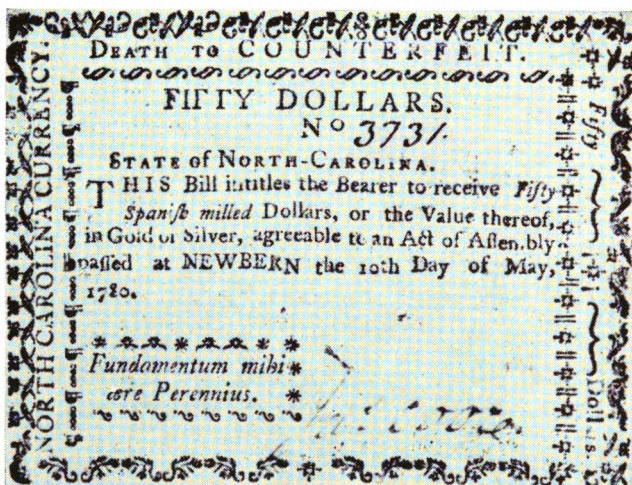
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Bill issued in 1778 to help pay expense of the Revolution. When this note was issued taxation in the state had been practically suspended. The note was almost worthless.

When the Revolution began, the financial condition of North Carolina was serious. The public funds were exhausted and no taxes had been collected for two years. Moreover, the majority of the people opposed the levying of taxes, and insisted that the colony should continue to pay its debts by creating new note issues.

The public feeling that no taxes should be levied had its weight with Revolutionary assemblies. Notes were issued to pay military expenses, but taxes to provide for paying the notes did not go into immediate effect. In fact, taxation in North Carolina was practically suspended until 1780.

Of course paper money issued under such conditions soon became worthless. In December, 1780, \$725 in paper was worth only \$1 in silver. Finally creditors refused to accept the paper money at all.



Original in Hall of History

Bill issued in 1780. The state issued over \$3,000,000 in paper money in this year, but before the year was out it was all worthless. Taxes levied that year were paid in country produce.

After the utter collapse of the currency, barter became common again. People also began spending the gold and silver coins they had hoarded, and by 1782 gold and silver were plentiful and remained so until they were once more replaced by paper.

By 1783 the old paper currency had completely disappeared from circulation and North Carolina was on a specie basis. But that year new notes were issued. These soon depreciated and two years later another issue was made. These likewise fell in value.

When North Carolina joined the Federal Union in 1789 the inflated currency was one of the most demoralizing influences in the state. Not only were business conditions confused, but the practice of manipulating state and private transactions had



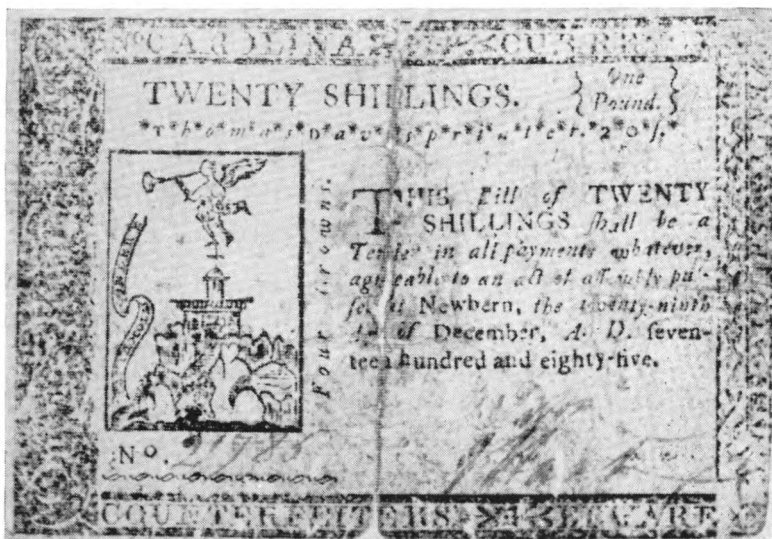


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Bill issued in 1783. The old paper money had stopped circulating and gold and silver were being used when the bill was issued. The new money soon fell in value.

become so general that business and government were honey-combed with fraud. Members of the assembly used their power over the currency to increase their private gains and popularity; many of them opposed ratification of the Federal Constitution because it prohibited the states from issuing bills of credit, and so would prevent the continuation of practices from which they were profiting personally.

The Federal Constitution was ratified, however, and the issuing of bills of credit by the state was ended. But there was still the problem of paying off the notes that had already been issued and making the state's monetary system conform to that of the United States. In addition to the notes issued in 1783 and 1785, there were in circulation many of the old "state dollars" issued during the Revolution, as well as a large quantity of treasurer's certificates and a great many "Continental dollars." The Continental dollars were not North Carolina's responsibility, for they had been issued by the Continental Congress. Nor did the old "state dollars" have to be redeemed, as they had been repudiated as legal tender in 1783. The "state dollars" were still receivable as taxes, however, and their reduction was desirable. Therefore quantities paid in for taxes each year were burned by order of the finance committee of the legislature.



*Original in Hall of History*

Bill issued in 1785. This was one of the last notes issued before North Carolina ratified the Constitution of the United States, which forbids the states to issue paper money.

The honor and credit of the state required payment of the obligations represented by the treasurer's certificates, which had been authorized, during the period when paper currency was without value, to take care of the state's obligations to those from whom money, goods, and services had been obtained. The majority of these certificates were redeemed by exchange for public land beyond the mountains or for land confiscated from the Tories, or used in payment of taxes. As the certificates came into the fiscal offices they were supposed to be burned, but often the officers re-issued them. Depreciation, counterfeiting, and frauds of various types prolonged their redemption, which was not completed until 1818 or later.

The problem of redeeming the state currency was also urgent. Although the dollar currency of the United States was recognized as the lawful currency of the state, the North Carolina pound, shilling, and pence currency issued in 1783 and 1785 was too widely circulated to make it practical to keep records in dollars and cents. Moreover, the state currency was continually depreciating, and no new bills of credit could be issued to replace the depreciated notes. Some effort was made to redeem the currency by taxation; but the general antipathy to taxation was so great that the taxes were soon suspended. In the end the

currency was retired by the use of dividends from bank stock and by the cooperation of banking institutions, which exchanged currency for their own notes, then paid it to the state as dividends on state-owned stock. By 1816 enough of the state currency had been retired to make it possible to reckon business transactions in terms of dollars and cents instead of pounds and shillings. But there were some state notes still in circulation as late as 1835.

Today there are few pieces of the old state money in existence. These are found chiefly in museums and in the albums of collectors, where they serve as reminders that we are not the first people to have debts, taxes, and inflation, and that earlier money problems were sometimes worse than our own.

### LIST OF PAPER-CURRENCY ISSUES IN NORTH CAROLINA 1712-1786

1712	£4,000	bills of credit
1713	£8,000	bills of credit
1714 or 1715	£24,000	bills of credit
1722	£12,000	bills of credit
1729	£40,000	bills of credit
1735	£40,000; £2,500; £10,000	bills of credit
1748	£21,350	bills of credit
1754	£40,000	bills of credit
1756	£3,600	treasury notes
1757	£5,306; £9,500	treasury notes
1758	£7,000; £4,000	treasury notes
1759	£5,500	treasury notes
1760	£12,000	bills of credit
1761	£20,000	bills of credit
1768	£20,000	debenture bills
1771	£6,000	treasurer's notes
1771	£60,000	debenture notes
1775	\$125,000	bills of credit
1776	£500,000 (\$1,250,000)	bills of credit
1778	£850,000 (\$2,125,000)	bills of credit
1779	£500,000 (\$1,250,000)	bills of credit
1780	\$3,100,000	bills of credit
1781	\$26,250,000	treasurer's certificates
1783	£100,000	bills of credit
1785	£100,000	bills of credit

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